

Mass state pension fund rose 17.6% in fiscal '14

By **Beth Healy**

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The Massachusetts state pension fund reported an investment gain of 17.6 percent for the fiscal year that ended June 30, outpacing its benchmark and pushing total assets to a record \$60.7 billion.

The return added \$9.4 billion to the portfolio for state workers' retirement, led by strong results in private equity, global stocks, and real estate.

"It was a fantastic year," Michael Trotsky, the fund's executive director since 2010, said in an interview Tuesday. He warned that the market's rally since the financial crisis "cannot last forever," but he said the fund is better positioned to handle a downturn than it was in 2008 and 2009, when it lost nearly a quarter of its value.

The pension fund beat its internal benchmark, a theoretical combination of investments that would have earned 14.9 percent for the year. But the fund but did not outperform the nation's largest public pension, the \$300 billion California Public Employees' Retirement System, which recently posted a return of 18.4 percent for the year ended in June.

The State Teachers Retirement System of Ohio, closer in size to the Massachusetts fund at \$74.7 billion, earned a 16.7 percent return for the same period.

State Treasurer Steve Grossman, who is chairman of the pension fund, said the fund had lowered its risk at the same time it boosted performance. Managers moved to lower investment risks after the pension fund lost 23.9 percent in the 2009 fiscal year, in the aftermath of the financial crisis.

"In the last calamity, back in 2008, 2009, we captured significantly more than the market on the downside," said Grossman, who is running for governor. "We spent the last five years recovering from that."

The fund has taken a series of measures to lower risk and reduce fees and other costs. For instance, it has lowered its exposure to stocks from 49 percent to 43 percent of assets and is headed toward a target of 40 percent. It also launched a program to save \$100 million annually by trimming hedge fund fees, cutting out middlemen, and generating revenue. In fiscal 2015, the fund will save \$40 million, Grossman said.

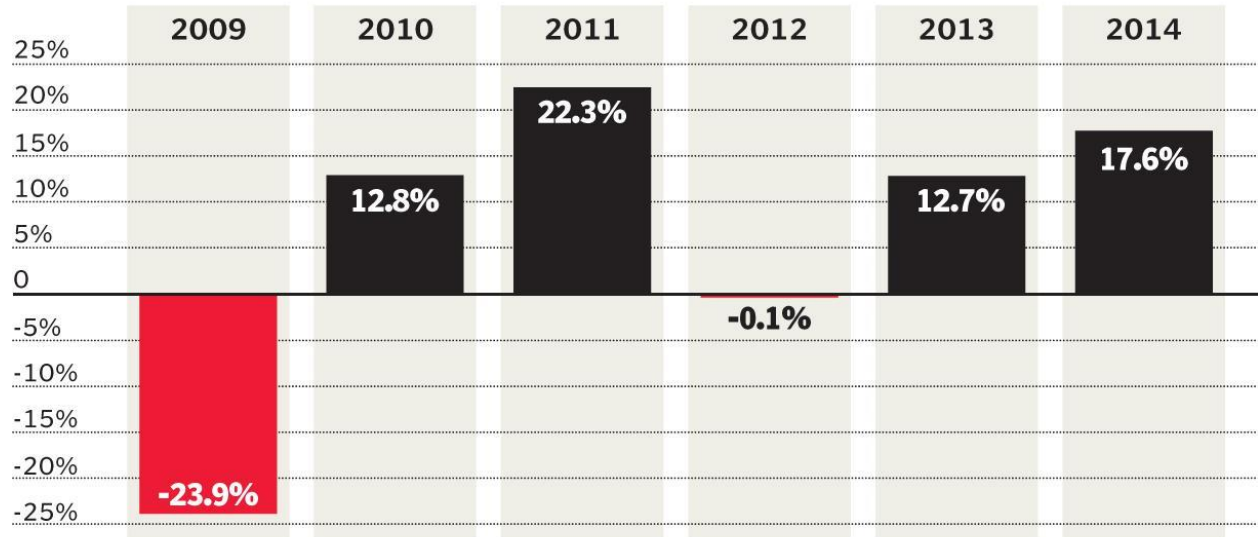
"We've added value, saved money," he said.

The fund's board of directors earlier this year also decided to move more money into long-term US Treasuries as a hedge against the stock market falling. In a fortunate turn, interest rates continued to fall, instead of rising, which increased the value of the bonds and generated the fund's best returns of the first six months of the 2014 calendar year, Trotsky said.

Those gains could help offset losses the fund probably sustained in stocks in last week's steep slide in the equity market.

"We believe that will provide us a dampening effect from the volatility we've seen in July," Trotsky said.

Investment return on state pension plans*



SOURCE: PRIM *Fiscal years ended June 30

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